

TENNESSEE TENNIS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

TENNESSEE TENNIS ASSOCIATION, INC.

TABLE OF CONTENTS DECEMBER 31, 2011

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5-9



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Tennessee Tennis Association, Inc.

We were engaged to audit the accompanying statement of financial position of Tennessee Tennis Association, Inc. (a nonprofit corporation) as of December 31, 2011, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management.

The Corporation does not maintain certain customary accounting records and supporting documents relating to transactions with suppliers and customers, nor, in our opinion, is the system of internal control adequate to provide safeguards of assets and assure proper recording of transactions. Accordingly, it was impracticable to extend our procedures sufficiently to determine the extent to which the financial statements may have been affected by these conditions.

Because the Corporation does not maintain certain customary accounting records or documents or an adequate system of internal control, as described in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above.

Carr, Riggs & Ingram

Nashville, Tennessee
December 17, 2012

TENNESSEE TENNIS ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2011

ASSETS

Current assets:

Cash	\$ 69,076
Investments	267,406
Accounts receivable	27,899
Prepaid expenses and other current assets	<u>6,530</u>
Total current assets	370,911

Equipment, net 14,442

Other assets 1,200

Total assets \$ 386,553

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 14,455
Payroll taxes payable	<u>4,602</u>
Total current liabilities	<u>19,057</u>

Net assets:

Unrestricted net assets 367,496

Total liabilities and net assets \$ 386,553

See accompanying notes to financial statements.

TENNESSEE TENNIS ASSOCIATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2011

Revenues and support:

Program and leagues	\$ 399,000
Grants	248,298
Membership dues	87,260
Other	34,352
Interest	5,543

Total support and revenues	<u>774,453</u>
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Expenses:

Program and leagues	368,931
General and administrative	367,885
Unrealized loss on investments	<u>12,485</u>

Total expenses	<u>749,301</u>
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Increase in net assets	25,152
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Net assets at December 31, 2010	<u>342,344</u>
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Net assets at December 31, 2011	<u><u>\$ 367,496</u></u>
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See accompanying notes to financial statements.

TENNESSEE TENNIS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities:

Increase in net assets	\$ 25,152
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	6,630
Unrealized loss on investments	12,485
Net changes in assets and liabilities:	
Accounts receivable	(15,503)
Prepaid expenses and other current assets	(6,455)
Accounts payable	(3,039)
Payroll taxes payable	(532)
Net cash provided by operating activities	<u>18,738</u>

Cash flows from investing activities:

Purchase of investments	(30,563)
Purchase of equipment	<u>(4,222)</u>
Net cash used in investing activities	<u>(34,785)</u>

Net decrease in cash	(16,047)
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Cash:

Beginning of year	<u>85,123</u>
End of year	<u>\$ 69,076</u>

See accompanying notes to financial statements.

TENNESSEE TENNIS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

1. ORGANIZATION AND PURPOSE

The Tennessee Tennis Association, Inc. (the "Corporation") is a membership-based state organization of the United States Tennis Association (USTA). The Corporation is one of 9 states in the USTA's southern section. The Corporation is a non-profit 501(c)(4) that is organized under Tennessee law, governed by a Board of Directors and led by an Executive Director and staff. The mission is to promote and develop the growth of tennis in Tennessee. The Corporation's job is to support local community tennis groups and affiliated organizations by helping to start new tennis programs or expand existing ones (for any and all ages and abilities), offering suggestions and training. The Corporation administers a variety of USTA programs which include adult leagues, junior competition tournaments, training centers, camps, Jr. team tennis leagues and tournaments, and community outreach programs which include special populations tennis, tennis for military families and underserved populations. The Corporation manages an extensive ranking, scheduling and sanction system for adults and junior players. The Corporation serves 13,000 members in Tennessee and Bristol, Virginia. The core staff is based in Nashville, Tennessee with more than 1,000 volunteers statewide.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The financial statements of Tennessee Tennis Association, Inc. have been prepared on the accrual basis of accounting.

Classification of Restricted and Unrestricted Net Assets – The Corporation has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 *Financial Statements of Not-For-Profit Entities*. FASB ASC 958 establishes standards for general purpose external financial statements provided by not-for-profit organizations. In addition, it requires that the amounts of three classes of assets - permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position, and that the amounts of change in each of these classes of net assets be displayed in a statement of activities. FASB ASC 958 requires the Corporation to report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2011, the Corporation had no restricted net assets.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Accounts receivables - Accounts receivables consist of amounts due for membership dues, player head taxes, league fees, and other miscellaneous income. Interest is not normally charged on receivables. Management establishes a reserve for losses on its accounts based on the historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. No allowance has been established at December 31, 2011 as management believes all amounts are collectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

Equipment – Purchased equipment is carried at cost. Donated equipment is recorded at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years for furniture and equipment.

Investments and income recognition – Investments at December 31, 2011 are recorded at fair value based on quoted market prices in active markets in accordance with FASB ASC 820 and FASB ASC 958. The Corporation's investments represent funds held for future operational or capital needs. Changes in the basis of investments held at the end of the year are reflected in the statement of activities as unrealized gains or losses in the fair value of investments. Realized gains and losses on the sale of investments are recorded based upon the difference between the proceeds and the basis on the investments and are reflected net of unrealized gains and losses in the statement of activities. The basis of the investment is determined by the specific-identification method. Interest income and dividends are recognized when earned.

Revenue recognition – The Corporation recognizes revenues as earned on grants, membership dues, tournament fees and sanction fees. Revenues received for future grants, membership dues, sanction fees and sponsorship are deferred until the applicable year or service period.

Expense allocation – Expenses that are directly identifiable are charged to program and leagues. Personnel expenses are allocated on the basis of direct salaries. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Corporation.

Tax status – The Corporation is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. There was no unrelated business taxable income during the year ended December 31, 2011.

The Corporation accounts for income taxes under FASB ASC 740, *Income Taxes*. Accounting principles generally accepted in the United States of America require the Corporation to evaluate the tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Corporation has analyzed the tax positions taken, and has concluded that as of December 31, 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation believes it is no longer subject to income tax examinations for years prior to 2009.

Concentration of credit risk – Financial instruments, which potentially subject the Corporation to concentrations of credit risk, are principally investments and accounts receivable. The Corporation places its investments in high credit quality mutual funds. Concentrations of credit risk with respect to accounts receivable is limited due to the number of agencies the Corporation deals with and the credit worthiness of the agencies themselves. To reduce risk, the Corporation routinely assesses the financial strength of the agencies it deals with and, as a consequence, believes that its credit risk in the grant area is limited.

Concentration– The Corporation receives some of its revenues through grants from the Southern Tennis Association, Inc. The future receipt of such funding, however, is indeterminate due to the uncertainty of grant resources in future years. Should this support be discontinued, the Corporation may have to discontinue some certain programs.

Subsequent events – Subsequent events have been evaluated through December 17, 2012, the date the financial statements were available to be issued. See Note 9 for description of subsequent events.

3. EQUIPMENT

Equipment consists of the following:

Furniture and equipment	\$ 43,659
Less: Accumulated depreciation	<u>29,217</u>
Net equipment	<u><u>\$ 14,442</u></u>

Depreciation expense for the year was \$6,630.

4. INVESTMENTS

Investments were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Mutual funds	<u>\$ 269,193</u>	<u>\$ 267,406</u>

Investment income (loss) for the year ended was as follows:

Dividends and interest	\$ 5,543
Unrealized loss on investments	<u>(12,485)</u>
	<u><u>\$ (6,942)</u></u>

5. FAIR VALUE MEASUREMENTS

The Corporation accounts for financial assets and liabilities and any other assets and liabilities carried at fair value under FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access at the measurement date.

Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

5. FAIR VALUE MEASUREMENTS (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2011.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Corporation at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Corporation's investments at fair value as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Mutual Funds				
Short-term Bond funds	\$ 74,038	\$ -	\$ -	\$ 74,038
World Stock funds	64,925	-	-	64,925
World Allocation funds	35,895	-	-	35,895
Large Blend funds	33,999	-	-	33,999
Large Growth funds	33,053	-	-	33,053
World Bond funds	25,496	-	-	25,496
Total mutual funds	<u>267,406</u>	<u>-</u>	<u>-</u>	<u>267,406</u>

6. OPERATING LEASES

The Corporation leases office space in Nashville, Tennessee. The lease on the office space expires July 2014 with monthly payments of approximately \$1,250 through the expiration. The Corporation also leases various items of office equipment. As of December 31, 2011, the monthly lease expense for this equipment totals \$127. During 2012, as noted in Note 9, the Corporation entered into a new office and equipment agreement. The future minimum rental commitments below reflect the new leases.

Future aggregate minimum rental commitments at December 31, 2011 are as follows:

2012	\$ 18,930
2013	45,392
2014	36,942
2015	3,992
2016	3,484
Thereafter	2,262
	<u>\$ 111,002</u>

Total rent expense for office and equipment for 2011 was \$15,906.

7. RELATED PARTY TRANSACTIONS

The Corporation provides management services to the Patrons Foundation which is a 501(c)(3) entity and a related party. The Corporation recognized no gain or loss for these services during 2011. The balance receivable of \$7,475 is included in accounts receivable on the accompanying balance sheet.

8. RETIREMENT PLAN

The Corporation has a retirement plan for employees who receive a minimum of \$5,000 in compensation. Employees are eligible to participate in the plan after one year of eligible service. Participants are allowed to contribute to the Plan. The Corporation makes up to a 3% contribution, and may also make discretionary contributions. Employer contributions totaled \$3,769 for the year.

9. SUBSEQUENT EVENTS

The Corporation executed a lease for a new office location during December 2012. Monthly rent is \$2,200 and the lease will expire on November 31, 2014. The Corporation executed an equipment lease with monthly rent of \$206. The future minimum rental commitments for these leases are included in Note 6.